UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

COMMONWEALTH OF KENTUCKY
DEPARTMENT OF FINANCIAL INSTITUTIONS
FRANKFORT, KENTUCKY

Written Agreement by and between

HAZARD BANCORP
Hazard, Kentucky

PEOPLES BANK AND TRUST COMPANY
OF HAZARD
Hazard, Kentucky

FEDERAL RESERVE BANK OF CLEVELAND
Cleveland, Ohio

and

COMMONWEALTH OF KENTUCKY
DEPARTMENT OF FINANCIAL
INSTITUTIONS
Frankfort, Kentucky

Docket No. 16-003-WA/RB-HC
16-003-WA/RB-SM

Administrative Action
No. 2015-AH-00151

WHEREAS, in recognition of their common goal to maintain the financial soundness of Hazard Bancorp, Hazard, Kentucky (the "Bancorp"), a registered bank holding company, and Peoples Bank and Trust Company of Hazard, Hazard, Kentucky (the "Bank"), a state-chartered bank that is a member of the Federal Reserve System, Bancorp, the Bank, the Federal Reserve Bank of Cleveland (the "Reserve Bank"), and the Commonwealth of Kentucky Department of Financial Institutions, Frankfort, Kentucky (the "KDFI") have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on February 23, 2016, the boards of directors of Bancorp and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Leon L. Hollon to enter into this Agreement on behalf of Bancorp and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by Bancorp and the Bank.

NOW, THEREFORE, Bancorp, the Bank, the Reserve Bank, and the KDFI agree as follows:

Source of Strength

1. The board of directors of Bancorp shall take appropriate steps to fully utilize Bancorp's financial and managerial resources, pursuant to section 38A of the Federal Deposit Insurance Act (the "FDI Act") (12 U.S.C. § 1831*o*-1) and section 225.4(a) of Regulation Y of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with this Agreement and any other supervisory action taken by the Bank's federal or state regulators.

Board Oversight

2. Within 60 days of this Agreement, the board of directors of the Bank shall submit a written plan to the Reserve Bank and the KDFI to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) the actions that the board of directors will take to improve the Bank's condition and maintain effective control over, and supervision of, the Bank's major operations and activities, including but not limited to, credit risk management, lending and credit administration, asset quality, capital, and earnings;

(b) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations and to monitor exceptions to approved policies and procedures;

(c) steps to enhance the information and reports that will be regularly reviewed by the board of directors and its committees in their oversight of the operations and management of the Bank, including information on the Bank's credit risk management, lending and credit administration, level and trend of adversely classified assets, allowance for loan and lease losses ("ALLL"), exceptions to loan policies, capital, audit, and earnings; and

(d) the maintenance of adequate and complete minutes of all board and committee meetings, approval of such minutes, and their retention for supervisory review.

Credit Risk Management

3. Within 60 days of this Agreement, the Bank shall submit a written plan to strengthen credit risk management practices acceptable to the Reserve Bank and the KDFI. The plan shall, at a minimum, address, consider, and include:

(a) the actions that the board of directors will take to improve internal controls and oversight of the Bank's lending function;

(b) strategies to minimize credit losses and reduce the level of problem assets;

(c) periodic review and revision of risk exposure limits to address changes in market conditions; and

(d) timely and accurate identification and quantification of credit risk within the loan portfolio.

Lending and Credit Administration

4. Within 60 days of this Agreement, the Bank shall submit an enhanced written lending and credit administration program acceptable to the Reserve Bank and the KDFI that shall, at a minimum, address, consider, and include:

(a) underwriting standards that require documented analyses of: (i) the borrower's repayment sources, global cash flow, and overall debt service ability; (ii) current financial information; and (iii) the value of any collateral;

(b) limitations on the capitalization of interest in loan renewals;

(c) steps to ensure compliance with loan documentation and collateral requirements to minimize exceptions; and

(d) procedures to ensure that appraisals conform to accepted appraisal standards, as defined in the Uniform Standards of Professional Appraisal Practice, and comply with the requirements of Subpart G of Regulation Y of the Board of Governors (12 C.F.R. § 225, Subpart G) made applicable to state member banks by section 208.50 of Regulation H of the Board of Governors (12 C.F.R. § 208.50), and the Interagency Appraisal and Evaluation Guidelines, dated December 2, 2010 (SR 10-16).

5. Within 60 days of this Agreement, the Bank shall take all steps necessary to correct the documentation and credit information deficiencies in the Bank's loan files identified in the report of the examination conducted by the Reserve Bank and the KDFI that commenced on April 20, 2015 (the "Report of Examination"). In all cases where the Bank is unable to obtain needed documentation or credit information, the Bank shall document the actions taken to secure

the information and the reasons the information could not be obtained. The Bank shall submit this documentation to the Reserve Bank and the KDFI.

Asset Improvement

6. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the Report of Examination, or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review.

7. (a) Within 60 days of this Agreement, the Bank shall submit a written plan acceptable to the Reserve Bank and the KDFI designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan, relationship, or other asset in excess of $250,000, including other real estate owned ("OREO"), that are past due as to principal or interest more than 90 days as of the date of this Agreement, are on the Bank's problem loan list, or were adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan, relationship, or other asset in excess of $250,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the KDFI an acceptable written plan to improve the Bank's position on such loan, relationship, or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the KDFI to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report.

Allowance for Loan and Lease Losses

8. (a) The Bank shall, within 30 days from the receipt of any report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank and the KDFI.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the KDFI. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectability.

(c) Within 60 days of this Agreement, the Bank shall submit a written program for the maintenance of an adequate ALLL acceptable to the Reserve Bank and the KDFI. The program shall include policies and procedures to ensure adherence to the ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the KDFI within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

9. Within 60 days of this Agreement, the Bank shall submit a written plan to maintain sufficient capital acceptable to the Reserve Bank and the KDFI. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) compliance with the applicable requirements of Regulation Q of the Board of Governors, Capital Adequacy of Board-Regulated Entities (12 C.F.R. Part 217);

(b) the adequacy of the Bank's capital, taking into account the volume of adversely classified assets, the adequacy of the ALLL, current and projected asset growth, projected earnings, and anticipated and contingency funding needs; and

(c) the source and timing of additional funds to fulfill the Bank's future capital requirements.

10. (a) The Bank shall notify the Reserve Bank and the KDFI, in writing, no more than 30 days after the end of any calendar quarter in which any of the Bank's capital ratios (total risk-based, Tier 1 risk-based, common equity Tier 1, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, the Bank shall submit a written plan acceptable to the Reserve Bank and the KDFI that details the steps the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

(b) During the term of this Agreement, the Bank shall not enter into any agreement to sell or purchase any loan or other asset that, in the aggregate, would exceed

5 percent of the Bank's total assets at the end of the prior quarter without the prior written approval of the Reserve Bank and the KDFI.

(c) All requests for prior written approval shall be received at least 30 days prior to the proposed sale or purchase. All requests shall contain, at a minimum, a description of the terms of the proposed sale or purchase, the identity of the proposed purchaser or seller; current and projected information on the Bank's capital, asset quality, earnings, and ALLL needs, and the identification of the sources of funds for any proposed purchase or sale.

Earnings Plan and Budget

11. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the KDFI a written business plan and a budget for 2016 to improve the Bank's earnings and overall condition. The plan shall, at a minimum, include, provide for, or describe:

(i) an assessment of the Bank's current financial condition, product lines, and market area, and a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components;

(ii) a realistic and comprehensive budget for 2016, including income statement and balance sheet projections;

(iii) a budget review process that analyzes and reports budgeted versus actual income and expense performance; and

(iv) goals and strategies for improving the Bank's core earnings and reducing overhead expenses.

(b) A business plan and budget for each calendar year subsequent to 2016 shall be submitted to the Reserve Bank and the KDFI at least 30 days prior to the beginning of that calendar year.

Internal Controls and Audit

12. Within 90 days of this Agreement, the Bank shall submit written policies and procedures acceptable to the Reserve Bank and the KDFI to strengthen the Bank's internal controls and audit that shall, at a minimum, address, consider, and include:

(a) dual controls;

(b) operational risks related to wire transfer and ACH transactions; and

(b) audit schedule, scope, and remediation tracking and testing.

Dividends

13. (a) Bancorp and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and, as to the Bank, the KDFI.

(b) Bancorp shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) Any request to declare or pay dividends must be consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323). All requests for prior approval shall be received by the Reserve Bank and the KDFI at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information, as appropriate, on Bancorp's capital, earnings, and cash flow; the Bank's capital, asset quality, earnings, and ALLL needs; and the source of funding for the proposed dividend.

Debt and Stock Redemption

14. (a) Bancorp shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Bancorp shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Compliance with Laws and Regulations

15. (a) The Bank shall take the necessary steps, consistent with sound banking practices, to correct all violations of law or regulation cited in the Report of Examination. In addition, the Bank shall take necessary steps to ensure future compliance with all applicable laws and regulations.

(b) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, Bancorp and the Bank shall obtain a written non-objection from the Reserve Bank and the KDFI and shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. § 225.71 *et seq*.).

(c) Bancorp and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation’s regulations (12 C.F.R. § 359).

Compliance with the Agreement

16. Within 30 days after the end of each calendar quarter following the date of this Agreement, the boards of directors of Bancorp and the Bank, or an authorized committee thereof, shall submit to the Reserve Bank and the KDFI written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans and Programs

17. (a) The Bank shall submit written plans and programs that are acceptable to the Reserve Bank and the KDFI within the applicable time periods set forth in paragraphs 3, 4, 7, 8(c), 9, 10(a), and 12 of this Agreement. Each plan or program shall contain a timeline for full implementation of the plan or program with specific deadlines for the completion of each component of the plan or program.

(b) Within 10 days of approval by the Reserve Bank and the KDFI, the Bank shall adopt the approved plans and programs. Upon adoption, the Bank shall promptly implement the approved plans and programs, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the KDFI.

Communications

18. All communications regarding this Agreement shall be sent to:

(a) Bryan S. Huddleston
Assistant Vice President
Federal Reserve Bank of Cleveland
Cincinnati Branch
150 East Fourth Street, 6th Floor
Cincinnati, Ohio 45202

(b) Charles A. Vice
Commissioner
Commonwealth of Kentucky
Department of Financial Institutions
1025 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601

(C) Leon L. Hollon
President and Chief Executive Officer
Hazard Bancorp
Peoples Bank and Trust Company of Hazard
524 Main Street
Hazard, Kentucky 41701

Miscellaneous

19. Notwithstanding any provision of this Agreement, the Reserve Bank and the KDFI may, in their sole discretion, grant written extensions of time to Bancorp and the Bank to comply with any provision of this Agreement.

20. The provisions of this Agreement shall be binding upon Bancorp and the Bank and their institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)), in their capacities as such, and their successors and assigns.

21. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the KDFI.

22. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the KDFI, or any other federal or state agency from taking any other action affecting Bancorp and the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

23. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818) [and KDFI pursuant to Kentucky Revised Statutes, sections 286.3-690 and 286.3-990.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 3rd of March, 2016.

HAZARD BANCORP

By: /s/ Leon L. Hollon
Leon L. Hollon
President and Chief Executive Officer

FEDERAL RESERVE BANK OF CLEVELAND

By: /s/ Stephen Jenkins
Stephen Jenkins
Senior Vice President

PEOPLES BANK AND TRUST COMPANY OF HAZARD

By: /s/ Leon L. Hollon
Leon L. Hollon
President and Chief Executive Officer

COMMONWEALTH OF KENTUCKY DEPARTMENT OF FINANCIAL INSTITUTIONS

By: /s/ Charles A. Vice
Charles A. Vice
Commissioner